

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 ARAE-00 AGR-20 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 STR-08

TAR-02 SS-20 NSC-07 L-03 CEA-02 SSO-00 NSCE-00 INRE-00

DRC-01 /163 W

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O R 011407Z AUG 74

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC IMMEDIATE 1349

INFO AMEMBASSY BOGOTA

AMEMBASSY MANAGUA

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SECTION 1 OF 2 PANAMA 4418

EO 11652: GDS

TAGS: ETRD, PN

SUBJ: BANANA TAX

REF: PANAMA 4403

SUMMARY: I MET WITH MINISTER OF FOREIGN AFFAIRS, AT HIS REQUEST, AND WITH MINISTER OF COMMERCE AND INDUSTRIES ON JULY 31 TO DISCUSS BANANA TAX PROBLEM. WE REVIEWED ALL TOO FAMILIAR STORY AND SOME NEW ELEMENTS. MY JUDGMENT IS THAT GOP WISHES TO SOLVE THE PROBLEM IN REASONABLE FASHION BUT CANNOT DO SO UNDER APPEARANCE OF PRESSURE TACTICS FROM COMPANY. IF TALKS CAN BE CONTINUED WITH LESS IMPLICATION OF PRESSURE, THEN I BELIEVE GOP PREPARED TO MOVE RAPIDLY IN MODIFYING BANANA TAX. END SUMMARY.

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1. I MET WITH MINISTER OF FOREIGN RELATIONS, JUAN

ANTONIO TACK, AND MINISTER OF COMMERCE AND INDUSTRIES, FERNANDO MANFREDO, AT THE FONOFF MORNING JULY 31 IN RESPONSE TO TACK'S CALL OF MID-AFTERNOON JULY 30 TO DISCUSS BANANA SITUATION. MANFREDO REVIEWED THE NOW ALL TOO FAMILIAR STORY, ADDING SOME NEW ELEMENTS.

2. HE SAID GOP FEELS HARASSED AND PRESSURED BY UNITED BRANDS. HE NOTED WEEKLY MEETINGS HAD BEEN GOING VERY WELL BUT GOP NOTICED SHARP CHANGE IN COMPANY ATTITUDE ABOUT A WEEK AGO. MANFREDO RELATED HE HAD BEEN ASSURED BY COMPANY REPRESENTATIVES ON JULY 26 THAT COMPANY WOULD CONTINUE SHIPMENTS. IN FACT, HE HAD ALREADY LEARNED, THROUGH CHECKS WITH BOX COMPANY AND INDEPENDENT PRODUCERS, THAT COMPANY HAD DECIDED TO HALT CUTTINGS AND SHIPMENTS. (FYI. PRESIDENT LAKAS CALLED MANFREDO BACK FROM DAVID, CHIRIQUI PROVINCE, TO MEET WITH HEYL ON JULY 30. UNITED BRANDS STOPPED LOADING ONE SHIP AND HELD ANOTHER OFF-SHORE ONE DAY LAST WEEK BECAUSE UNITED FEARED VESSELS MIGHT BE IMPOUNDED OVER TAX PAYMENT ISSUE.)

3. I ASKED ABOUT TAX PAYMENTS PROCEDURE. MANFREDO SAID THERE HAD BEEN NO AGREEMENT (E.G., TO USE CERTIFICATES OF GUARANTEE (CG). HE SAID THERE WERE TWO ELEMENTS TO AGREEMENT MINISTRY REACHED FOR PAYMENT OF EXPORT TAX: (A) GOP WOULD USE 40 POUNDS AS AVERAGE WEIGHT PER BOX OF BANANAS EVEN THOUGH THEY KNEW AVERAGE WAS HIGHER AND (B) COMPANY WAS GIVEN 60 DAYS AFTER EXPORT IN WHICH TO MAKE TAX PAYMENTS. MANFREDO STATED TOP-LEVEL GOP OFFICIALS WERE UNAWARE THAT COMPANY WAS USING CG'S, SAYING NEITHER PEOPLE AT BANCO NACIONAL NOR THOSE WHO RECEIVED CG'S AT FINANCE MINISTRY HAD APPARENTLY MADE ANY DISTINCTION BETWEEN CG'S AND CERTIFIED CHECKS. HE EXPLAINED THAT MINFIN EMPLOYEES HAD MARKED THE TAXES "PAID," GIVEN THE COMPANY TAX RECEIPTS AND RETURNED THE CG'S TO THE BANCO NACIONAL. HE ADDED THAT UNDER PANAMANIAN LAW TAXES OWED MAY ONLY BE PAID IN CASH OR WITH CERTIFIED CHECKS. IN ANY EVENT, HE SAID HE DID NOT UNDERSTAND WHY THE COMPANY WAS SO CONCERNED SINCE, IF UNITED WERE UPHELD IN ANY LEGAL DISPUTE OVER THE TAX, THE GOVERNMENT

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WOULD OWE THE COMPANY AND HAVE TO MAKE RESTITUTION.

4. MANFREDO REPORTED THAT HE AND SANCHIZ WERE SURPRISED AT THE APPROACH BY UNITED TO SELL THE PROPERTIES. HE SAID GOVERNMENT NOT INTERESTED IN BUYING THE COMPANY AND VIEWED THE GESTURE AS A PRESSURE TACTIC. HOWEVER, HE SAID, IF UNITED WANTED TO SELL THE COMPANY, THEY WERE FREE TO MAKE AN OFFER TO THE GOP. BUT HE

STRESSED THAT GOVERNMENT WAS NOT PUSHING UNITED IN THAT DIRECTION. MANFREDO ADDED THAT ON BASIS OF TALKS LAST FRIDAY HE WAS PREPARED TO INTRODUCE REVISION OF EXPORT TAX LAW AND THOUGHT HE COULD GET APPROVAL VERY QUICKLY -- HE SAID WITHIN TWO OR THREE DAYS. HE SAID THE TAX WOULD VARY ON A SLIDING SCALE FROM FIFTY CENTS TO A DOLLAR PER BOX, EXPLAINING THAT IF AVERAGE LEVEL OF EXPORTS WERE MAINTAINED, TAX WOULD HOVER AROUND FIFTY CENTS -- IF COMPANY REDUCED EXPORTS, TAX WOULD INCREASE.

5. ON QUESTION OF OFFER TO SELL, MANFREDO SAID HE MADE IT VERY CLEAR TO UNITED REPRESENTATIVES THAT IF THEY REACHED POINT WHERE THEY STOPPED HARVESTING AND SHIPMENTS (OUR UNDERSTANDING IS THAT SHIPMENTS DID NOT STOP, AT LEAST LAST WEEK) AND COMPANY BEGAN LAYING OFF WORKERS, UNDER PANAMANIAN LAW, COMPANY WOULD BE RESPONSIBLE FOR PAYING WORKERS. HE ALSO SAID COMPANY WOULD HAVE TO MAINTAIN PLANTATIONS AND EQUIPMENT AND, IF COMPANY DID NOT, GOVERNMENT WOULD DO SO FOR ACCOUNT OF COMPANY. FURTHER, HE SAID, COMPANY WOULD BE LIABLE FOR EXPORT TAX ON SHIPMENTS FOREGONE.

6. I OBSERVED THAT ONE PROBLEM WAS THE VARIATION IN THE TAX AMONG BANANA PRODUCING COUNTRIES, NOTING THAT UNITED HAD COMMITMENTS IN OTHER COUNTRIES AS WELL AND CLEARLY FELT ABUSED. MANFREDO REPLIED THAT TAX WAS FIFTY CENTS IN HONDURAS, HIS OWN CALCULATION OF TAX IN COSTA RICA WAS SIXTY-EIGHT CENTS AND IF ONE TOOK LONGER HAUL FREIGHT CHARGES INTO ACCOUNT FOR ECUADOR, THE EQUIVALENT OF THE TAX WOULD BE FORTY CENTS TO GET PRODUCT TO MARKET.

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7. MANFREDO INFORMED ME THAT CHAIRMAN OF GOLDMAN SACHS OF NEW YORK CALLED PLANNING MINISTER BARLETTA JUST BEFORE OUR MEETING THIS MORNING, WHICH GOP READ AS JUST ANOTHER SIGN OF PRESSURE ON GOVERNMENT. MANFREDO SAID GOLDMAN SACHS WAS QUOTE DISTRESSED END QUOTE THE WAY THINGS WERE GOING AND ASKED GOP TO PLEASE RECEIVE UNITED BRANDS PRESIDENT ELI BLACK THIS FRIDAY TO DISCUSS WAY OF SOLVING PROBLEM. (DEPARTMENT WILL RECALL GOLDMAN SACHS PLAYED IMPORTANT ROLE IN GOP FINANCING ARRANGEMENTS IN 1971 AND 1972.).

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8. I COMMENTED THAT I APPRECIATED GOP'S VIEW AND POSITION. I SAID I HAD NO INSTRUCTIONS BEYOND INTEREST OF USG IN EARLY AND AMICABLE SETTLEMENT BECAUSE OUR OWN FEELING WAS THAT BOTH COMPANY AND GOVERNMENT WOULD SUFFER FROM FAILURE TO RESOLVE DISPUTE. MOREOVER, I SAID, IF CONFRONTATION CONTINUED, WITH TOTAL SHUTDOWN OR OTHER DISTURBING EVENTS, THAT WOULD UNDOUBTEDLY AFFECT OTHER ISSUES OF INTEREST TO OUR GOVERNMENTS. I ASKED IF UNITED RESUMES CUTTING AND SHIPPING AT NORMAL LEVELS, WOULD MINISTER GO AHEAD WITH IMMEDIATE REVISION OF EXPORT TAX. MANFREDO STATED REVISION ALREADY WRITTEN AND HE COULD GET IT QUICKLY BUT HE COULD NOT DO SO UNDER PRESSURE, THREATS AND INTIMIDATION.

9. COMMENT: MY CONCLUSION IS THAT GOP WANTS TO SOLVE PROBLEM IN REASONABLE MANNER BUT UNABLE TO DO SO UNDER APPEARANCES OF PRESSURE AND HARASSMENT. IF ACCEPTABLE
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DRESSING CAN BE PUT ON NEGOTIATIONS, I BELIEVE GOP PRE-
PARED TO MOVE QUICKLY TO MODIFY BANANA EXPORT TAX
REGIME. I KNOW DEPARTMENT REALIZES THIS IS PART OF A
COMPLICATED CHESS GAME WITH COMPANIES THAT HAVE BEEN
KNOWN TO BE BITTER RIVALS ON ONE SIDE AND GOVERNMENTS
OF PRODUCING COUNTRIES--WHICH ALSO HAVE DIFFERENCES--
ON THE OTHER. THE INTERESTS OF INDEPENDENT PRODUCERS,
WORKERS AND OTHER ELEMENTS MAKE IT THREE-DIMENSIONAL.
AS FOR PANAMA, ECONOMIC INTERESTS ARE IN CONFLICT WITH
POLITICAL PRIDE. AND SOME OFFICIALS HERE ARE GETTING
A BIT CROSSEYED TRYING TO KEEP ONE EYE ON BALANCE OF
PAYMENTS AND THE OTHER ON PERSONAL PRESTIGE. BY TAKING
LEAD IN "BANANA WAR" PANAMA HAS MADE ITS OWN BED OF
NAILS. BUT THAT DOES NOT MAKE THE LYING DOWN ON SAME
ANY MORE COMFORTABLE. I HOPE COMPANY REPRESENTATIVES
CAN BE MADE AWARE OF PREVAILING SENSITIVITIES--AS WELL
AS OF ADVERSE EFFECTS OF U.S. NATIONAL INTERESTS IF
THIS SITUATION WORSENS.

JORDEN

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